

Banning the use of credit history, education, and income in insurance - December 2009

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Credit scoring is inherently unfair – especially in today’s economic climate.

Washington limits the use of certain credit factors, but it’s still a key factor for most insurers.

Most consumers don’t understand what their credit score has to do with the likelihood they’ll file a claim.

Insurers should stick to using meaningful factors like what car you drive and how you drive it.

What this bill will do

Insurance companies won’t be allowed to use credit history, income or education to determine if they’ll issue someone auto or homeowners insurance coverage or to calculate their premium.

Background

Seven years ago, Washington’s Legislature passed one of the strongest laws in the country, restricting the use of credit scoring in insurance. Insurance companies cannot cancel or non-renew someone based solely on his or her credit score.

And they cannot use certain credit factors to deny new coverage or to set rates, including the number of credit inquiries, the use of a particular credit card, or someone’s total available line of credit.

Despite these limitations, most insurance companies today still use credit as a key factor in setting rates.

The problem

Using someone’s credit history and other social and economic factors to determine eligibility or to set insurance rates is inherently unfair.

Insurance is required if you want to own a car or take out a mortgage. Insurance companies shouldn’t be allowed to set premiums that make some people pay more simply because they struggle with unexpected bills, or because they’ve had their credit tightened due to the economic crisis.

Arguments that people who are financially pressed are more likely to file claims are unconvincing and distract from the proper focus of insurance underwriting and rating: the condition of the property being insured and the behavior of the owner in relation to that property.

Despite disclosure requirements, credit scoring remains a secretive process. It’s nearly impossible for consumers to determine how their credit history impacts how much they’ll pay for coverage.

The solution

Prohibit the use of the following information for insurance rating or eligibility:

- Credit history
- Education (although discounts for good students and people who complete driver training would still be allowed)
- Income